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Secret

OFFICE OF
NATIONAL ESTIMATES

MEMORANDUM

Political Implications of the Senkaku Islands Dispute

Secret

19 May 1971

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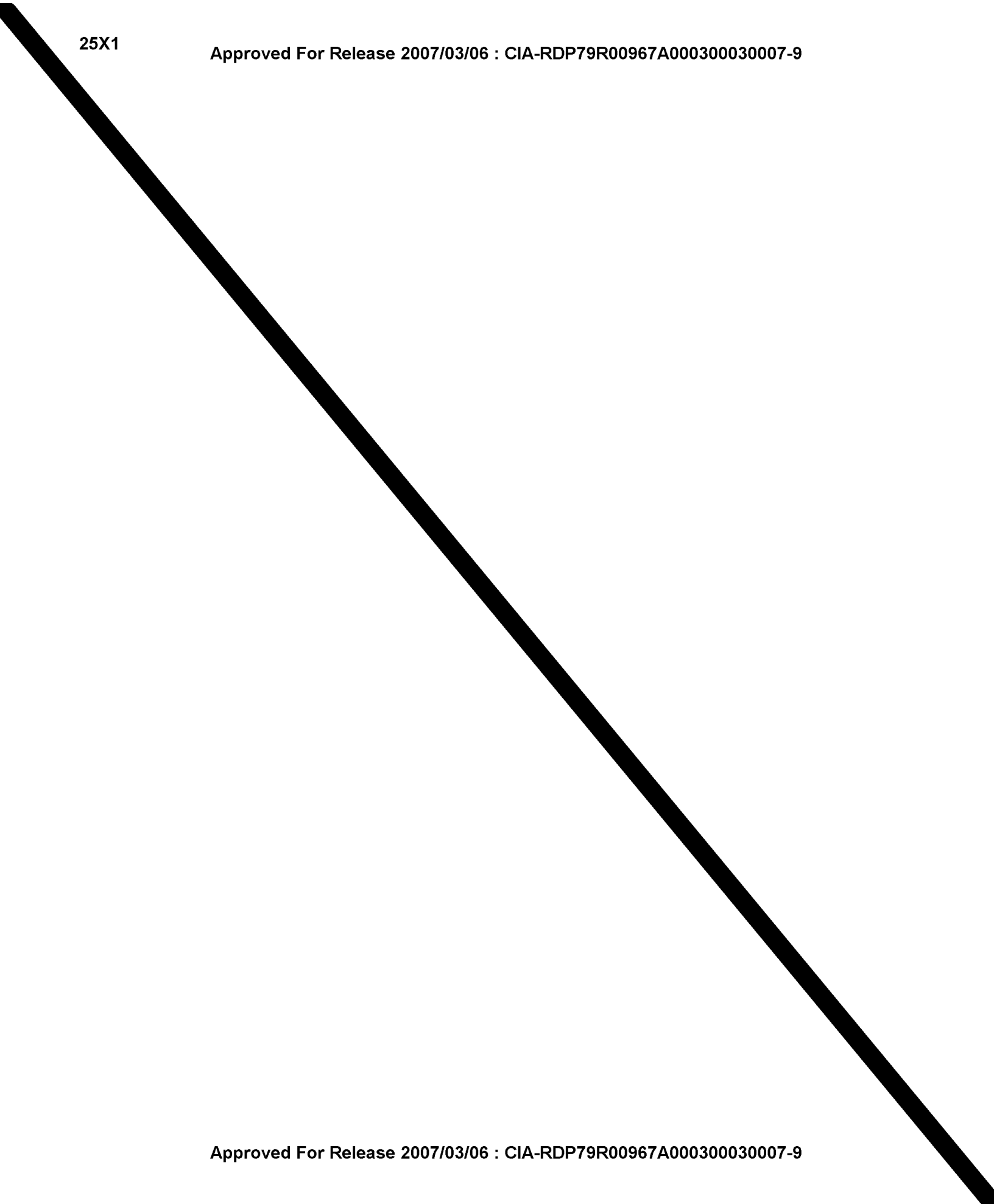

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CENTRAL INTELLIGENCE AGENCY

OFFICE OF NATIONAL ESTIMATES

19 May 1971

MEMORANDUM

SUBJECT: POLITICAL IMPLICATIONS OF THE SENKAKU ISLANDS DISPUTE*

NOTE

The OBGI report "The Senkaku Islands Dispute: Oil Under Troubled Waters?" [redacted] covers the historical, legal, and geographic aspects of the situation in considerable detail. This memorandum examines the political problems facing Japan and the two Chinas, certain contingencies that may arise, and the short and long-term implications for relations between the states involved.

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* *This memorandum was prepared by the Office of National Estimates and coordinated within CIA.*

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The Present Situation

1. The dispute between Japan and the two Chinas over the Senkaku Islands may prove to have far-reaching effects on the delicate political relationships between the parties. The real controversy is not about sovereignty over these small, uninhabited islets but over the ownership of the mineral rights under the East China Sea continental shelf -- from the vicinity of Kyushu in the North to Taiwan in the South. A territorial dispute over either the Senkakus or the continental shelf would never have arisen without the lure of potentially rich oil deposits. If present hopes for oil do not materialize, the Senkakus are likely to relapse into their normal obscurity. But until further surveys and tests permit a more accurate assessment of the potential for oil, all parties will assume that enormous stakes are at issue, and will continue to push their maximum claims.

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2. Japan finds itself caught in a painful dilemma. It faces an immediate dispute with the two Chinas over the ownership of the Senkakus. On the basis of its good relations with Taipei, Tokyo clearly hoped it could finesse the Senkakus issue and work out mutually agreeable arrangements with the GRC for exploring the shelf. Peking's intervention makes it clear this will not be a simple matter. To the extent that Tokyo solves its problems with Taipei, it damages its long-range hope of improving relations with Peking. Conversely, if long-term calculations about effective legal rights in the continental shelf impel Japan to think in terms of a deal with Peking, Tokyo incurs immediate problems with Taipei.

3. The logic of the two Chinas concerning the Senkaku issue is identical. Both Taipei and Peking share resentment of Japan and offer the same legal argument for Chinese sovereignty over both the islands and the continental shelf. What divides them in this matter is what divides them in everything else: which government legally represents all of China. But the growing international shift toward recognition of Peking leaves Taipei in the position of fighting a battle that, in the end, may benefit the PRC more than the GRC.

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4. Tensions are already high and are likely to remain so as the exploration for oil goes on; they are already impeding the search. The US-sponsored moratorium on exploration and survey work has slowed down the race. So long as the moratorium remains in effect, Peking will not have to make a decision on how or where it must back up its strong public statements that it alone has the right to explore and exploit these areas. Moreover, Peking may not wish to move rapidly. It has no present need for additional oil sources and now lacks the technology for deep water drilling. (There are, in any case, other potentially valuable and more easily exploitable oil basins in coastal areas and offshore waters of northern and eastern China.) The GRC and Japan may decide to move so cautiously with respect to the areas in which they test and explore that Peking need do no more than assert its claims in principle for a very considerable time to come.

The Near Term

5. But both Tokyo and Taipei are driven by a considerable sense of urgency. Their needs for oil are such that if US ships and technology are denied them, each will search out other sources. US oil companies are just as eager to exploit whatever oil may prove

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available and are already proposing survey patterns on the shelf that bypass the disputed Senkakus and are far enough away from the mainland to reduce the risk of PRC interference. Taipei will probably prove amenable to reducing the range of its explorations on the shelf and concentrating more on the areas adjacent to Taiwan. The Japanese may similarly step up survey work near Kyushu and, if they decide to drill around Senkaku, keep within a 12-mile radius of those islands. In the short run, active contention over ownership of the Senkakus is likely to be greatest between Japan and the GRC. The potential for political conflict between them, with long-term consequences, is clearly present.

6. If the GRC and Japan both restrict their survey and drilling operations to areas near their home islands, Peking will probably conclude that it has little choice but to accept this. Even drilling around the Senkakus might not arouse Peking to action, since the islands are far from the mainland, and under the administration of the US until reversion to Japan in 1972. Even after reversion, Peking would be concerned that any action it took against the Senkakus might activate US commitments to defend Japan. Rather than risk hostilities, the PRC will probably keep alive its claims by periodic editorial blasts against parties engaged in exploration.

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7. Both the GRC and Japan are unlikely to push exploration into the western-most portions of their claimed concessions. [redacted] 25X1 25X1 25X1 [redacted] But if they should move into these areas or farther west, Peking would feel compelled to issue harsh warnings. And if this failed, the PRC might conclude that it had to resort to more threatening measures -- possibly including a show of naval force. This would present the potential for direct confrontation, which all parties would prefer to avoid. We believe, therefore, that all 25X1 will show considerable caution, and that neither Taipei nor Tokyo will choose to conduct survey work if it means having to do so under naval guard.

8. Despite concern over Peking's warnings, both Japan and the GRC are likely to continue exploratory surveys on the eastern fringes of the shelf over the next year. Peking may tolerate this, if only to find out if oil is present. Should test drilling prove successful and lead to production drilling, Peking would feel compelled to play a stronger hand. Even then, rather than resorting to a show of force immediately, Peking's concern over its new diplomatic image would more likely lead it to explore political possibilities.

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9. There is some evidence of Peking's desire to negotiate: a *People's Daily* reprint of a *Guardian* article by John Gittings which argued that China could not lay claim to the entire continental shelf but must acknowledge the claims of Japan and South Korea through "mutual agreement -- as has been done in the North Sea". The mere reprinting of this article, including its reference to the Geneva agreement of 1958 on the continental shelf, is evidence that Peking believes its legal position on the shelf is so strong that it can afford to negotiate on how the edges of the shelf are apportioned.

10. Peking almost certainly considers that its only opponent in such negotiations will be Japan. There is no chance that Peking will consider discussing boundaries or drilling rights with Taipei. And if it comes to drawing demarcation lines on the Yellow Sea between China and South Korea, Peking is likely to do this with Pyongyang rather than with Seoul. (And even in this case Peking is likely to honor a *de facto* median line between its shelf claims and those of South Korea.) Thus, Peking may already be calculating its possible gains from negotiations with Japan on a matter in which it holds high cards.

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11. Japan's desire for its own source of petroleum is so great that the prospect of a slice of the continental shelf -- assuming that drilling tests confirm current optimistic speculation -- will incline it to attempt to bargain with Peking. Negotiating with Peking for a part of the shelf would require Tokyo to ignore Taipei's claim to represent all of China, and while Tokyo would salvage what it could from its economic investment in Taiwan, it would have to balance losses on Taiwan against gains on the shelf. The present government in Tokyo would clearly not opt for so drastic a change under present conditions. But circumstances change, as do governments. If not Sato himself, whoever succeeds him (probably in a year or so) will be under heavy pressure to show more movement toward Peking, and considering the GRC's shaky international position, is likely to be cautious about linking Japan's future too closely to that of the Chinese Nationalists.

12. Taipei has already sought US support for its claims to the Senkakus and has failed to obtain the desired results. It is probably more optimistic about persuading the US to relax its moratorium on the use of American ships for survey and drilling purposes. US oil companies are pressuring the State Department to relax its moratorium

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and the GRC has already shown its willingness to restrict survey operations to those zones most distant from the mainland. Taipei shows little concern about PRC reaction against survey vessels. The Nationalists doubt that PRC forces would choose to use harassment or open hostilities so far from the mainland; and even if they did, Taipei would see potential benefits in the political fallout of US ships coming under communist fire. If faced with a threat of confrontation with the PRC in a situation outside the scope of the US-GRC Mutual Defense Treaty, however, Taipei would be likely to back down. The GRC would be hesitant to put its defense treaty with the US to the test beyond its explicit territorial limits (Taiwan and the Pescadores).

13. We can not rule out the possibility that Taipei, in seeking to salvage a losing game, might put a military presence on the Senkakus after they revert to Japan in mid-1972. Indeed, Taipei seems more likely to move in this direction than Peking. Tokyo would probably feel it had no alternative but to remove such a presence, by negotiation if possible, by force if necessary. There seems little doubt that Japan's confidence in the legality of its claim -- implicitly recognized by the US -- would lead it to take strong measures in countering any attempted seizure by the Chinese Nationalists.

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The Long Run

14. While it is clear that the Senkaku dispute has the potential for a military confrontation, the long-term inducements are strong for accommodation between Peking and Tokyo on oil and other issues, and this can take place only at the price of erosion in the position of Taipei. This judgment is based on the growing international acceptance of Peking as the legitimate government of the mainland, the concomitant rejection of Taipei's claim to that role, and most importantly, the slowly evolving Japanese position toward closer relations with the mainland. In this on-going process the Senkaku dispute, or more properly, the dispute over oil rights under the continental shelf, may help to force a Japanese decision on a matter which it has successfully evaded for 20 years.

15. Japan will hope to postpone or fudge the matter of choice for as long as possible, and for the next year or so -- certainly under Sato -- will probably succeed. But ultimately Tokyo can hardly escape having to choose between Taipei (and the need to pick up a part of the US responsibility for the security of Taiwan) or seeking some sort of accommodation with Peking (with the knowledge that this probably rules out any special relationship

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with the GRC on Taiwan.) Tokyo has not been required to make any irreversible decisions on this matter as yet. The stakes have been too low, thus far, to force a major reversal of existing policy. Confirmation of a major oil field in a portion of the shelf, where secure access would require negotiations with Peking, would go far to pull Tokyo off its balancing act. This is not to say that Tokyo requires the lure of oil to reach an accommodation with Peking. Trade with the mainland and other considerations are moving Japan in this direction, but much more gradually.

16. Peking probably calculates that by using oil negotiations to improve its relations with Japan it would ultimately be in a better position to drive wedges between Japan and the US. Similarily, Peking would hope that any improvement in its relations with Tokyo would serve to upset both Moscow and Taipei. (Moscow has already charged Peking with "colluding" with Tokyo, believing that any rapprochement between China and Japan would be inimical to Soviet interests in East Asia.)

17. Weakening the GRC remains one of Pekings's major objectives. Anything it can do to enlarge or exploit differences between Taiwan and either the US or Japan, or both, would seem attractive to Peking.

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In the past the PRC has been consistent in displaying antagonism toward both the US and Japan, and it is possible that this may continue. But if it does, it will contribute to closer ties between Tokyo and Taipei and work against Peking's major goal of recovering Taiwan. On the other hand, if Peking is disposed to try a softer approach, it will probably find Japan in an increasingly receptive mood. In this context, negotiations over the Senkaku/continental shelf could serve as a logical and mutually advantageous step towards improving Sino-Japanese relations.

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MEMORANDUM FOR: The Director

Here are the two Senkaku Islands papers. I am withholding distribution of ours until you give the word.

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[redacted]
John [redacted]nga
Dire[redacted] National Estimates

Attachments:
1 - Political Implications of the Senkaku Islands Dispute
2 - The Senkaku Islands Dispute: Oil Under Troubled Waters?

cc: DDCI

19 May 71
(DATE)

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